

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**July 16, 2009**

The Capital Projects and Bond Oversight Committee met on Thursday, July 16, 2009, at 1:00 PM, in Room 169 of the Capitol Annex. Representative Susan Westrom, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Julian M. Carroll and Elizabeth Tori; Representatives Robert R. Damron and Steven Rudy.

Guests: John Hicks, Governor's Office for Policy and Management; Bob Wiseman, University of Kentucky; Sam Ruth, Department of Facilities and Support Services; Charles Bush, Division of Real Properties; Kasi White, Kentucky Infrastructure Authority; Katie Smith, Department of Financial Incentives; Brett Antle, Office of Financial Management; and James Street, Eastern Kentucky University.

LRC Staff: Don Mullis, Kristi Culpepper, Shawn Bowen, and Samantha Gange.

Representative Rudy made a motion to approve the minutes of the June 16, 2009 meeting. The motion was seconded by Senator Tori and approved by voice vote.

Representative Westrom called on Don Mullis, Committee Staff Administrator, to discuss correspondence and information items. Mr. Mullis said members' folders contained several correspondence items: the quarterly status reports from the Finance and Administration Cabinet, the universities that manage their own construction projects, and the Administrative Office of the Courts (AOC); correspondence from the Finance and Administration Cabinet regarding a report to use the Design-Build project delivery method; correspondence from the Cabinet for Economic Development; and correspondence from Secretary Jonathan Miller, Finance and Administration Cabinet, and Secretary Joe Prather, Transportation Cabinet, regarding the use of GARVEE bonds and the status of bonds authorized under 2008 House Bill (HB) 2.

Senator Leeper asked if the state has an established bond counsel and whether an opinion letter from bond counsel was issued regarding the \$80 million in bonds authorized in HB 2. John Hicks, Deputy Budget Director, Governor's Office for Policy and Management, said that there was no official letter from bond counsel, just informal discussions.

With respect to HB 2, Senator Leeper asked if the letter from Secretary Miller was suggesting that the state could not capitalize interest on future bond issues. Mr. Hicks said he could not recall an instance where the state had authorized bonds without also appropriating debt service. He said that recent bond issues have included capitalized interest, but that was in response to budget shortfalls, and debt service had been appropriated.

Senator Leeper asked Mr. Hicks to provide guidance on how capitalized interest may be taken into account in the authorization of new debt. Mr. Hicks responded affirmatively.

Senator Leeper asked if the bonds need to be reauthorized. Mr. Hicks said the state has not previously issued General Fund supported bonds without also appropriating debt service.

In response to further questions from Senator Leeper, Mr. Hicks explained that, in the past, bonds have been authorized where the debt service was appropriated in the second fiscal year of the budget biennium or in the second half of the second year of the biennium. The bonds could be issued before the debt service was appropriated and capitalized interest could be used. Mr. Hicks said the way in which HB 2 was drafted was unusual and that this had not been done previously. He added that the state has not gone to market under these circumstances before.

Senator Leeper asked Mr. Hicks to provide a written letter to staff with suggestions as to how to draft legislation appropriating debt service and capitalized interest in a bill. Mr. Hicks said he would respond to staff.

Representative Westrom asked Mr. Hicks to also provide Representative Rocky Adkins with a copy of the response.

Senator Leeper asked if there is a revolving list of bond counsels or if the state has a contract with a specific bond counsel. Brett Antle, Deputy Director, Office of Financial Management (OFM), responded that the state hires bond counsel for each issuer on a basis of a one-year contract or a two-year contract. As an example, he said the State Property and Buildings Commission has a rotation of three bond counsels and is currently in the process of issuing a Request for Proposal (RFP) to hire a rotation of two bond counsels for the current fiscal year. Most of the other issuers hire a single bond counsel, but those are done under a separate RFP process.

Senator Leeper asked how many bond counsels were contacted concerning HB 2. Mr. Antle said that between himself and Tom Howard, Executive Director, OFM, at least two were contacted.

Next Mr. Mullis noted that members' folder contained the staff and market updates. He said that the market update contained information concerning the state's debt ratings as well as information related to federal legislation that might have an impact on transportation-related bond issues.

Representative Westrom recognized Bob Wiseman, Vice President for Facilities Management, University of Kentucky (UK). Mr. Wiseman reported a lease modification (PR-8275), for a lease between UK and Coldstream Ventures One, LLC for space located in the Coldstream Research Park at 1525 Bull Lea Road in Lexington. The university will add 1,766 square feet to the original 4,500 square feet to accommodate the university's need for programmatic expansion of the UK Interdisciplinary Human Development Institute. The lease cost is \$16.50 a square foot. With this action, the cost of the lease (\$103,389) now exceeds the \$100,000 threshold for reporting. Mr. Mullis said the lease has already been executed, and staff recommends no action be taken.

Representative Westrom asked Mr. Mullis to report a purchase of unbudgeted scientific research and medical equipment for the University of Louisville (UL). Mr. Mullis reported that UL has used available federal funds totaling \$875,200, to acquire three items of scientific research equipment. Purchases of equipment must be reported to the Committee, but no further action is required.

Next, Representative Westrom called on Mr. Hicks and Sam Ruth, Commissioner of Facilities and Support Services, Finance and Administration Cabinet, to report an Energy Savings Performance Contract (ESPC) for Eastern Kentucky University (EKU). The Finance and Administration Cabinet is resubmitting information related to an August 2008 ESPC for EKU, which was initially reviewed by the Committee in May 2009. Mr. Ruth said in August 2008, EKU signed an ESPC with Siemens Building Technologies, Inc. to make campus-wide energy conservation improvements. EKU also entered into a lease agreement with Sun Trust Equipment Financing and Leasing Corporation to finance \$25,364,000 of improvements. The total cost of the project is \$39,187,909 and will generate a savings of \$3,163,948 each year. Over the course of the 12-year project, the total savings are expected to be \$40,108,515.

Mr. Hicks said that as a result of the Federal Stimulus Act, the Finance and Administration Cabinet is pursuing further ESPCs for state government and will be reporting several projects to the Committee in the near future.

Representative Westrom asked if the ESPCs will be similar in size to EKU's contract. Mr. Hicks said that the ESPCs would be much smaller than EKU's.

Representative Damron asked how the state selects lease financing vendors for ESPCs. Mr. Hicks responded that he would provide the information to staff.

Representative Damron asked how the Finance Cabinet would procure financing for the ESPCs for state government. Mr. Hicks said that the Finance Cabinet is currently working out the details. He explained that in recent months, the financing mechanisms for ESPCs have not been attractive. Some of the funds from the Federal Stimulus Act could be combined to help buy down the interest rates. He said that the Finance Cabinet is looking at combination financing, where some of the funds are subsidized through the stimulus dollars and the rest is provided by a third party financing entity. The Finance Cabinet along with the Energy Cabinet and OFM is currently developing procedures to determine the best combination of financing for a particular project.

Senator Carroll asked if the inclusion of stimulus funds in ESPC calculations would distort the measurement of the savings achieved through the improvements. Mr. Hicks said that the ultimate financing measurement is how much is saved in reduced energy consumption versus how much is paid for the investment. He said that the federal stimulus money is specifically designated for energy savings.

Next Representative Westrom asked Charles Bush, Director, Division of Real Properties, Finance and Administration Cabinet to report on eight emergency leases. Mr. Bush said that the Finance Cabinet has declared an emergency under KRS 56.805 to allow for procurement of eight temporary storm debris storage sites for the Transportation Cabinet. The expiration date of the leases is not specified, but the Transportation Cabinet anticipates six to seven months of use. The leases cover 46.7 acres and have an annual cost of \$280,200. No Committee action was needed.

Representative Westrom asked why the leases were being reported to the Committee so late when they were all executed in February and March. Mr. Bush said that the Finance Cabinet received the report for the leases from the Transportation Cabinet on June 30, 2009 and sent materials to the Committee the same day.

In response to questions from Representative Rudy, Mr. Bush said that the Transportation Cabinet anticipates the leases will end in either August or September. The debris will either be burned or chipped.

Senator Tori asked if any of the lease agreements have expired. Mr. Bush said all the properties are currently being used and the Transportation Cabinet will have to provide the lessor with a 30-day notice to terminate the lease agreement.

Representative Westrom called on Kasi White, Financial Analyst, Kentucky Infrastructure Authority (KIA) to present nine loan requests. Ms. White said that the first loan request was a \$1,703,000 Fund A loan for the City of Pineville in Bell County for the Kentucky Avenue utility replacement project, which consists of replacing a combined sewer system and a concrete storm sewer line. This project will address a Consent

Judgment to eliminate its combined sewer overflows. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The second loan request was a \$3,000,000 Fund A loan for the City of Shepherdsville in Bullitt County for the South Bullitt Regional Interceptor project, which consists of the installation of gravity sewer, one force main, and one pump station. This project will address a Consent Judgment to eliminate its combined sewer overflows. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The third loan request was a \$2,620,000 Fund A loan for the Lexington-Fayette Urban County Government (LFUCG) to complement their Downtown Streetscape Green Infrastructure Program Initiative. This project will address a Consent Decree between LFUCG, U.S. Environmental Protection Agency, and the Commonwealth of Kentucky. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The fourth loan request was a \$237,000 Fund A loan for the LFUCG to construct drainage improvements on Radcliffe Road. This project will address a Consent Decree between LFUCG, U.S. Environmental Protection Agency, and the Commonwealth of Kentucky. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The fifth loan request was a \$1,150,000 Fund A loan for the City of Louisa in Lawrence County to renovate the sanitary sewer collections system in the Meadowbrook and Berg subdivisions. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

In response to a question from Senator Tori about the principal forgiveness components of the loans, Ms. White said that the American Recovery and Reinvestment Act required that the state provide subsidization of at least 50 percent of the recovery funds received.

Representative Rudy made a motion to approve the five Fund A loan requests. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

Next Ms. White reported that the sixth loan request was a \$350,000 Fund B loan for the City of Pineville in Bell County to upgrade an existing sewer lift station and to construct a new force main. This project will address a Consent Judgment. The loan term is 20 years with an interest rate of 1.57 percent.

The seventh loan request was a \$2,500,000 Fund B loan for the Murray Electric Plant Board in Calloway County for the purchase and installation of a fiber optic cable that will carry internet and cellular telephone signals. The loan term is 20 years with an interest rate of 1.57 percent.

In response to a question from Senator Tori, Ms. White said that the Murray Electric Plant Board is anticipating \$9,000 - \$10,000 in savings and is currently reviewing how to pass the savings on to customers.

Senator Carroll made a motion to approve the two Fund B loan requests. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

The eighth loan request was a \$950,000 Fund F loan for the City of Springfield in Washington County on behalf of the Springfield Water and Sewer Commission to construct a new, larger raw water line from the primary water source to the treatment plant. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act and is part of Kentucky's Green Reserve.

The ninth loan request was a \$222,606 Fund F loan for the City of Centertown in Ohio County to demolish an existing standpipe, booster station, and master meter, then construct a new water storage tank, booster pump station, master meter station, water main, water lines, and meters. The loan term is 30 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act and is part of Kentucky's Green Reserve.

Representative Westrom asked what is the Kentucky Green Reserve and how much is currently in it. Ms. White said the Kentucky Green Reserve is part of KIA's requirements for the American Recovery and Reinvestment Act. Kentucky received approximately \$70 million for Clean Water and Drinking Water projects and is required by the Act to commit at least 20 percent of the funds to projects that have green components or are considered green projects. The U.S. Environmental Protection Agency provided KIA with guidance on what projects are considered green. Ms. White was not sure of the actual amount left in the Kentucky Green Reserve.

Senator Tori asked if the residents of Centertown had been notified of the 50 percent rate increase. Ms. White said that as KIA required the rate increases as a condition of the loan. The rate increases have already been implemented.

Representative Damron made motion to approve the two Fund F loan requests. The motion was seconded by Senator Carroll. Five members vote affirmatively, and one member voted "No." The motion passed.

Ms. White indicated that various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

Representative Westrom asked Katie Smith, Deputy Commissioner, Department of Financial Incentives, Cabinet for Economic Development to present ten new Economic Development (EDB) Pool Grants – Base Realignment and Closure (BRAC) projects. The 2008 General Assembly authorized \$50,000,000 of EDB funds in HB 406 (2008-2010 Budget) to be used for BRAC-related projects. All ten projects were recommended by the BRAC Task Force.

Ms. Smith said the first grant request was for \$20,156,850 to the City of Elizabethtown to expand the Valley Creek Wastewater Treatment Plant from 7.2 million gallons per day (MGD) to 13.0 MGD. The additional plant capacity is necessary to meet BRAC-related demand, potential commercial growth in the area, and could possibly be used to meet regional sewer service needs.

The second grant request was for \$1,500,000 to the Hardin County Fiscal Court for the benefit of the Hardin County Water District to replace 400 manholes with cured-in-place manhole liners and 15,000 linear feet of pipe. This project will significantly reduce unnecessary groundwater treatment.

The third grant request was for \$2,250,000 to the Hardin County Fiscal Court for the benefit of the Hardin County Water District to upgrade six lift stations with pumps, controls, handling, capacity, and new force mains. This project will address increased demand from the City of Radcliff's population growth and anticipated BRAC-related demand.

The fourth grant request was for \$2,500,000 to the Hardin County Fiscal Court for the benefit of the Hardin County Water District to renovate and rebuild the Pirtle Springs Water Treatment Plant. This project will improve water quality for residents and accommodate additional customers due to BRAC-related growth.

The fifth grant request was for \$2,000,000 to the Hardin County Fiscal Court for the benefit of the Hardin County Water District to construct a one-million-gallon elevated water storage tank. This project will allow the District to meet additional demand from BRAC-related growth.

The sixth grant request was for \$1,458,000 to the Hardin County Fiscal Court for the benefit of the Hardin County Water District to construct a 24-inch water main loop connecting the south end of the Elizabethtown loop, including the Glendale Industrial site. This project will address BRAC-related demand for water in the area.

The seventh grant request was for \$9,601,420 to the Hardin County Fiscal Court for the benefit of the Hardin County Water District to extend the sewer collection system to high growth areas outside of Elizabethtown, including Rineyville, Glendale, Sonora, and Upton. The new sewage collection system will eliminate failing septic systems and transport waste to existing facilities around Fort Knox.

The eighth grant request was for \$6,708,730 to the Hardin County Fiscal Court for the benefit of the Hardin County Board of Education to renovate a local middle school and improve accommodations for students. This project will address a potential increase in students related to BRAC.

The ninth grant request was for \$1,550,000 to the City of Brandenburg for the benefit of the Meade County Board of Education to construct a local primary school and improve accommodations for students. This project will address a potential increase in students related to BRAC.

The tenth grant request was for \$2,275,000 to the City of Muldraugh to replace 30,000 feet of gravity sewer lines, 6,000 feet of force main, and manholes. Muldraugh's wastewater flows to the Fort Knox Treatment Plant. This project will make the system more efficient, accommodate BRAC-related growth, and address inflow and infiltration problems.

Representative Westrom asked if these projects have received any funding yet. Ms. Smith said that some of the projects have received funding from KIA loans and other grants.

Senator Carroll made a motion to approve the ten EDB Pool Grants – BRAC projects. The motion was seconded by Senator Tori and approved unanimously by roll call vote.

Next Representative Westrom called Mr. Antle to the table. Mr. Antle reported one new bond issue with the School Facilities Construction Commission (SFCC) debt participation for Pulaski County.

Senator Tori made a motion to approve the new SFCC bond issue. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Representative Westrom asked Mr. Mullis to report the new local school bond issues. Mr. Mullis said there were four new school district bond issues with 100 percent local debt support for Corbin Independent (Whitley County), Harlan County, Nelson County, and Oldham County. All disclosure information has been filed. No Committee action was needed.



With there being no further business, Senator Carroll made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:10p.m.